

## The Taliban's Atomic Threat

By John R. Bolton

At his press conference Wednesday evening, President Barack Obama endorsed Pakistan's official position that it has secure control over its nuclear-weapons arsenal. Mr. Obama said he was "gravely concerned" about the situation there, but "confident that the nuclear arsenal will remain out of militant hands."

His words are not reassuring in light of the Taliban's military and political gains throughout Pakistan. America's security, and that of friends and allies world-wide, depends critically on preventing more adversaries, especially ones with otherworldly ideologies, from acquiring nuclear weapons. Unless there is swift, decisive action against the Islamic radicals there, Pakistan faces two very worrisome scenarios.

One scenario is that instability continues to grow, and that the radicals disrupt both Pakistan's weak democratic institutions and the military.

Often known as Pakistan's "steel skeleton" for holding the country together after successive corrupt or incompetent civilian governments, the military itself is now gravely threatened from within by rising pro-Taliban sentiment. In these circumstances—especially if, as Secretary of State Hillary Clinton testified recently, the nuclear arsenal has been dispersed around the country—there is a tangible risk that several weapons could slip out of military control. Such weapons could then find their way to al Qaeda or other terrorists, with obvious global implications.

The second scenario is even more dangerous. Instability could cause the constitutional government to collapse entirely and the military to fragment. This could allow a well-organized, tightly disciplined group to seize control of the entire Pakistani government. While Taliban-like radi-

cals might not have even a remote chance to prevail in free and fair elections, they could well take advantage of chaos to seize power. If that happened, a radical Islamicist regime in Pakistan would control a substantial nuclear weapons capacity.

Not only could this second scenario give international terrorists even greater access to Pakistan's nuclear capabilities, the risk of nuclear confrontation with India would also increase dramatically. Moreover, Iran would certainly further accelerate its own weapons program, followed inexorably by others in the region (e.g., Saudi Arabia, Egypt and Turkey) obtaining nuclear weapons, perhaps through direct purchase from Islamabad's new regime.

To prevent either scenario, Pakistan must move to the top of the United States' strategic agenda, albeit closely related to Afghanistan. (Pashtuns on both sides of the border are the major source of Taliban manpower, although certainly not the only locus of radical support.) Contrary to Western "international nannies," the primary conflict motivators in both countries are ethnic and tribal loyalties, religious fanaticism and simple opportunism. It is not a case of the "have nots" rising against the "haves," but of True Believers on a divine mission. Accordingly, neither greater economic assistance, nor more civilian advisers upcountry, nor stronger democratic institutions will

eliminate the strategic threat nearly soon enough.

We didn't get here overnight. We are reaping the consequences of failed nonproliferation policies that in the past penalized Pakistan for its nuclear program by cutting off military assistance and scaling

back the International Military Education and Training (IMET) program that brought hundreds of Pakistani officers to the U.S. Globally, this extraordinarily successful program has bound generations of foreign military leaders to their U.S. counterparts. Past cut-offs with Pakistan have harmed the bilateral relationship with the U.S.. Perhaps inevitably, the Pakistani officers who haven't participated in IMET are increasingly subject to radical influences.

Moreover, the Bush administration, by pushing former President Pervez Musharraf into unwise elections and effectively removing him from power, simply exacerbated the instability within Pakistan's already frail system. Mr. Musharraf's performance against the terrorists left much

Benazir Bhutto's assassination, while obviously unforeseen, was a direct consequence of the U.S.'s excessive electoral zeal.

To prevent catastrophe will require considerable American effort and unquestionably provoke resistance from many Pakistanis, often for widely differing reasons. The U.S. must strengthen pro-American elements in Pakistan's military so they can purge dangerous Islamicists from their ranks; roll back Taliban advances; and, together with increased efforts in Afghanistan, decisively defeat the militants on either side of the border. This may mean stifling some of America's democratic squeamishness and acquiescing in a Pakistani military takeover, if the civilian government melts before radical pressures. So be it.

Moreover, the U.S. must strive to keep Indo-Pakistani relations stable, if not friendly, and pressure Islamabad to put nuclear-weapons proliferator and father of Pakistan's nuclear program A.Q. Khan back under house arrest. At the same time, the U.S. should contemplate whether and how to extract as many nuclear weapons as possible from Pakistan, thus somewhat mitigating the consequences of regime collapse.

President Obama's talks this week in Washington with the presidents of Afghanistan and Pakistan provide a clear opportunity to take the hard steps necessary to secure Pakistan's nuclear arsenal and defeat the Taliban. Failure to act decisively could well lead to strategic defeat in Pakistan.

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A nuclear-capable cruise missile in Islamabad.

## The Economic Key to Sri Lankan Peace

By Razeen Sally

The Sri Lankan government is close to completing an emphatic military victory over the Tamil Tiger rebels. Sri Lanka's president, Mahinda Rajapakse, must follow up his military victory with a just settlement for the Tamil minority. If not, terrorism will go underground and ethnic conflict will continue to fester. But just as importantly, Sri Lanka's economy needs radical change. Peace and development go together.

Sri Lanka's economy has fallen far below its potential. At independence in 1948, the country formerly known as Ceylon was at peace, had a stable parliamentary democracy and was Asia's second-wealthiest nation. Its prospects were golden. It had a prospering plantation economy, and, by developing-country standards, a well-developed infrastructure, an efficient public administration and judiciary, and significant achievements in health and education.

Yet the Sinhala political elite soon pandered to the worst instincts of the Sinhala ethnic majority, egged on by a xenophobic Buddhist clergy. Successive governments played the populist ethnic card, increasing discrimination against the Tamil minority. This sowed the seeds of the Tiger terrorist movement, culminating in all-out violent conflict in 1983.

Disastrous economic policies exacerbated the civil unrest. Sri Lanka suffered from chronic fiscal and monetary profligacy, and followed the Indian path of rampant government intervention and trade protectionism. By the mid-1970s, the economy was close to ruin. Economic growth had almost come to a halt—it averaged less than three per cent between 1970 and

1976—real incomes were stagnant and unemployment reached 25% of the labor force. Welfare policies churned out educated youth among the poor, but they had no job prospects in a stagnant economy. Disaffection led many to extremism and violence, not just in the Tamil north but also in the Sinhala south.

The one bright spot was the major liberalization of the economy in the late 1970s, followed by reform bursts in later decades. Sri Lanka's reforms re-opened the country's economy to the world and created thriving domestic industries. Thus despite civil war, macroeconomic instability and misgovernance, Sri Lanka has grown at about six percent annually. Average real incomes, at about \$1,500, are 50% higher than they are in India. Outside the fighting zones, ordinary people are significantly better off than they were a generation ago.

Key to this success has been industrialization and a more diversified services economy. Employment in the formal manufacturing sector has more than doubled since 1980; and the share of manufacturing in total merchandise trade has increased from five per cent to close to 70% of GDP. The star in the firmament is a strong, labor-intensive garments industry—a direct product of liberalization. This industry, which emerged in the early 1980s, now accounts for about 50% of total export earnings and employs about one million people.

Still, Sri Lanka is a sad tale of what might have been. Reform has proceeded in stop-go fashion. Public spending, budget deficits and inflation have run wild. Of a

country of 20 million people and a labor force of under seven million, around one million now work for the bloated public sector. Inflation peaked at close to 30% last year, and official reserves were blown away defending an exchange-rate peg of 108 rupees to the dollar. Yet again, Sri Lanka faces a home-brewed balance-of-payments crisis

and is currently negotiating a \$1.9 billion loan with the International Monetary Fund. Trade protectionism has increased, with a paraphernalia of additional import taxes. Discretionary powers have also been used more frequently and selectively to re-

strict imports, for example through customs delays and extra charges. The domestic private sector has been repressed with additional taxes and regulatory burdens. The government has even set up its own—predictably loss-making—low-cost airline.

Now, academics and intellectuals advising the government are advocating a state-directed economy, infant-industry promotion and agricultural self-sufficiency. Policy making is more populist and unpredictable, favoring the politically connected and side-lining technocratic advice. Corruption and institutional rot set in long ago, but recently they have plumbed new depths.

A widely shared sentiment in Sri Lanka is that military victory will translate into peace and fast development. This is wishful thinking. Without a policy overhaul, Sri Lanka faces either slow material decline or something worse, especially with a bleak global economic outlook. The short-term imperative is to allow the exchange rate to devalue to a market-determined level, cut

public subsidies and make fiscal and monetary policy more transparent.

Beyond that, trade tariff hikes should be reversed, with accompanying simplification of trade and foreign-investment measures. There needs to be deep public-sector reform; a move to market pricing for oil and electricity; and, not least, big cuts in the defense budget. Drastic domestic deregulation is also imperative to cut the high cost of doing business. In the longer-term, Sri Lanka needs to revamp its rotten political culture and public institutions.

With peace and East Asian-style policies of macroeconomic prudence, openness to the world economy and better government at home, Sri Lanka would be where Malaysia is today. On that measure, absolute poverty would have been eradicated, average living standards would be four times what they are now, clusters of multinational enterprises would link the economy to global supply chains, tourism would be flourishing, services would be hitched to the Indian outsourcing juggernaut, and ordinary Sri Lankans would be able to realize aspirations they can only dream about today.

Given the government's record, the odds are against a near-term economic policy turnaround. A weak, divided political opposition does not provide a credible alternative. It is safe to say that without a change of economic direction, Sri Lanka will continue to fail to achieve its golden potential—with or without peace.

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